

## Message Text

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44

ACTION EUR-25

INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00 INRE-00

AGR-20 CEA-02 CIAE-00 COME-00 DODE-00 EB-11 FRB-02

H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00 NSC-10 PA-04

RSC-01 AID-20 CIEP-02 SS-20 STR-08 TAR-02 TRSE-00

PRS-01 SPC-03 OMB-01 NIC-01 SCEM-02 SCI-06 XMB-07

SAJ-01 DRC-01 /181 W

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O 261228Z DEC 73

FM AMEMBASSY BUDAPST

TO SECSTATE WASHDC IMMEDIATE 638

C O N F I D E N T I A L BUDAPEST 3999

E.O. 11652: GDS

TAGS: HU, US, ECON, PFOR, PINT, ENRG

SUBJECT: QUARTERLY REPORT OF MAJOR POLITICAL AND ECONOMIC TRENDS.

REF: BUDAPEST 3996 SECTION 2 OF 4

1. TRADE - INCREASED ECONOMIC RELATIONS WITH THE WEST, AND ABOVE ALL US, ARE OF PRIMARY INTEREST TO HUNGARY UNDER ITS CURRENT ECONOMIC POLICIES. WITH 40 PERCENT OF ITS GNP INVOLVED IN INTERNATIONAL TRADE, WITH ITS MARKET ORIENTATION, AND WITH A NEED TO BECOME COMPETITIVE IN WORLD MARKETS HUNGARY NEEDS TECHNOLOGY WE CAN BEST SUPPLY. MOST OF ITS WESTERN TRADE WILL CONTINUE TO BE WITH WE. BUT MANY CRITICAL ELEMENTS WILL BE WITH US.

A. MFN - IN THE HUNGARIAN GOVERNMENT AND IN THE PARTY LACK OF MFN TREATMENT IS CONSIDERED TO BE THE OUTSTANDING ISSUE BETWEEN THE US AND HUNGARY. VIRTUALLY EVERY OFFICIAL I HAVE CALLED UPON RAISES IT WITH ME. NO OTHER ISSUE RECEIVES SUCH SUSTAINED ATTENTION. HUNGARY REACTED WITH DISAPPOINTMENT TO RECENT CONGRESSIONAL  
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DECISIONS ON MFN, THOUGH THEIR PUBLIC REACTION WAS Milder

THAN WE HAD EXPECTED. SINCE IT BECAME APPARENT THAT MFN WAS IN SERIOUS DIFFICULTY, HOWEVER, THEY HAVE CONSISTENTLY NOTED IN PRIVATE CONVERSATIONS THAT EXTENSION OF MFN IS A KEY MATTER THAT IMPACTS UPON ALL OTHER ASPECTS OF OUR RELATIONS. IN PARTICULAR THEY HAVE INDICATED THAT PROGRESS IN CULTURAL-SCIENTIFIC RELATIONS WILL BE RELATED TO IT. OTHERS HAVE EXPRESSED VIEW THAT THIS FALL'S CONGRESSIONAL DECISION HAS ALREADY SLOWED DOWN MOMENTUM TOWARD IMPROVED RELATIONS. QUITE HOPEFUL AT START OF THE FALL, THEY HAVE BECOME PROGRESSIVELY MORE CONCERNED. PSYCHOLOGICALLY, EXTENSION OF MFN IS OF KEY IMPORTANCE TO GOH BECAUSE ITS ABSENCE MEANS IT IS BEING DISCRIMINATED AGAINST. ECONOMICALLY IT IS IMPORTANT BECAUSE ITS ABSENCE RAISES COST OF MUCH SORELY-NEEDED TECHNOLOGY AND RESTRICTS ACCESS TO US MARKETS. IF IN THE NEXT FEW MONTHS CONGRESS SHOULD FAIL TO GRANT PRESIDENT RIGHT TO GRANT MFN IN POLITICALLY VIABLE TERMS HERE, THERE WILL BE A DEFINITE NEGATIVE IMPACT ON OUR RELATIONS. WE DO NOT BELIEVE IMPROVEMENTS WILL STOP. BUT THERE WILL BE A GENERAL SLOWDOWN IN TRANSITION TOWARD IMPROVED RELATIONS AND ATMOSPHERE WILL GO TO FLAT. SUBMERGED PROBLEMS WILL BECOME MORE PROMINENT WHILE OTHERS WILL BE MORE DIFFICULT TO SOLVE. IN PARTICULAR WE WOULD NOT EXPECT A RELAXATION ON RESTRICTIONS OVER OUR INFORMATIONAL ACTIVITIES, WHICH WE WOULD OTHERWISE ANTICIPATE. AND WE WOULD NOT EXPECT TO CONCLUDE A CULTURAL-SCIENTIFIC AGREEMENT. OUR ASSESSMENT ALSO IS THAT ISSUE OF CROWN OF ST. STEPHEN - SECOND ISSUE MOST PROMINENTLY UPON HUNGARIAN MINDS - WOULD BECOME A MORE URGENT AND MORE PUBLIC ONE. TRADE WILL PROBABLY CONTINUE TO EXPAND BUT AT A SLOWER PACE. OUR EXTENSION OF MFN IS ACCORDINGLY MOST IMPORTANT SINGLE STEP WE CAN TAKE TOWARD CONTINUING PROGRESS IN OUR RELATIONS WITH HUNGARY. IF IT SHOULD BECOME IMPOSSIBLE WE WOULD WANT TO RECOMMEND AMELIORATIVE ALTERNATE STEPS, INCLUDING EXTENSION OF EXIM CREDITS AND OTHER MEASURES.

B. FOREIGN TRADE - THE COUNTRY IS MOST DEPENDENT ON TRADE AND WITH A DESIRE TO COMPETE ON WORLD-MARKET, NOT JUST IN EE, HUNGARY HAS HIGH HOPES OF DEVELOPING ECONOMIC RELATIONS WITH WEST AS A MEANS OF MODERNIZING ITS INDUSTRIAL AND AGRICULTURAL ESTABLISHMENT. IT IS CONFIDENTIAL

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INTERESTED PARTICULARLY IN WHAT IT CALLS NEW FORMS OF TRADE - INDUSTRIAL AND AGRICULTURAL COOPERATION AGREEMENTS, CONSTRUCTION OF FACTORIES AND OTHER PATTERNS BEYOND NORMAL COMMERCIAL EXCHANGE OF COMMODITIES. IT HAS EVEN ENACTED A LAW TO PERMIT FOREIGN EQUITY INVESTMENT IN HUNGARY ON A 49 PERCENT MAXIMUM BASIS WHERE NEEDED TO ENCOURAGE THIS PROCESS. THEY HAVE BEEN LESS BOLD THAN OTHER EES IN IMPLEMENTING

THIS LW, POSSIBLY BECUASE THEY FEEL THEY HAVE ALREADY  
GONE A LONG WAY TOWARD LIBERALIZATION. OUR ESTIMATE IS  
THAT THEY WILL PERMIT SUCH INVESTMENTS INTIME, BUT THEY  
WILL DO SO ONLY IN A FEW CASES AND VERY CAUTIOUSLY.  
HUNGARIAN TRADE WITH FRG NOW EXCEEDS THAT WITH ANY COUNTRY  
EXCEPT USSR. ITS TRADE WITH US IS SMALL IN HUNGARIAN, NOT  
TO MENTION US, TERMS. ON OTHER HAND OUR TECHNOLOGICAL  
CAPABILITY AND PRESTIGE IS SUCH THAT A CONSIDERABLE  
EXPANSION IS POSSIBLE. (EVEN WITHOUT MFN TWO-WAY TRADE  
BETWEEN THE US AND HUNGARY IS INCREASING IN 1973 TO OVER  
\$60 MILLION FROM A 1972 LEVEL OF ABOUT \$35 MILLION.  
QUESTION ARISES AS TO WHERE THAT TRADE WILL PROGRESS IN  
1974 IF MFN NOT ENACTED. OUR BELIEF IS THAT IT WILL  
CONTINUE TO GROW. APPARENTLY SEVERAL LARGE AGREEMENTS  
ARE IN PROSPECT ABOUT WHICH THE EMBASSY HAS NO CONCRETE  
INFORMATION. TOP HUNGARIAN GOVERNMENT LEADERS  
CONTINUE TO URGE FAVORABLE RESPONSES FROM AMERICAN INDUSTRY  
TO PROPOSALS FOR LARGE-SCALE (BY HUNGARIAN STANDARDS)  
PROJECTS. EVERY INDICATION IS THAT THEY WILL WANT TRADE TO  
INCREASE EVEN WITHOUT MFN). A POLITICAL DECISION TO  
REVERSE COURSE CANNOT BE EXCLUDED BUT THE ECONOMIC REQUIRE-  
MENTS MAKE THIS THE MOST LOGICAL POLICY TO PURSUE SO LONG  
AS THEY ARE SATISFIED ABOUT OUR GOODWILL IN THIS AREA. AS  
THEY STILL ARE.  
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